ANNUAL REPORT 1955

International Shoe Company

ISCO

Forty-Fourth Annual Report...

Summary Description of the Business of the International Shoe Company and its Subsidiaries

PRODUCTION:

The Company manufactures a complete line of men's, women's and children's shoes.

The Company also manufactures for its own use in the manufacture of shoes, upper leather, sole leather, rubber heels, rubber soles, cotton cloth for linings, chemicals, cements, leather welting and other items.

DISTRIBUTION AT WHOLESALE LEVEL:

Through its selling divisions, the Company distributes the shoes it produces throughout the United States and its possessions and to foreign countries where satisfactory trade relations can be carried on under existing government restrictions.

DISTRIBUTION AT RETAIL LEVEL:

At the retail level, by far the greater part of the Company's shoes is distributed through more than 30,000 independent retailers. A part goes through large and small chain organizations. Less than 5% of the Company's shoes are distributed through retail stores owned by the Company or its subsidiaries.

Through its subsidiary, Shoenterprise Corporation, the Company finances the setting up of independently owned and operated retail shoe outlets in locations where the Company's distribution is unsatisfactory.

SUBSIDIARIES:

This consolidated report includes the affairs and accounts of its subsidiary corporations, all of which are engaged in businesses directly related to that of the Company. Five of these subsidiaries are of significant size:

THE FLORSHEIM SHOE COMPANY which manufactures and distributes Florsheim shoes for men and women.

SAVAGE SHOES, LIMITED, (Canadian Subsidiary) which manufactures Savage shoes and distributes them throughout Canada.

SHOENTERPRISE CORPORATION

TWELFTH-DELMAR REALTY COMPANY which owns and operates the Central Terminal Building in St. Louis, Missouri with International Shoe Company as the principal tenant.

BURK BROTHERS which operates one tannery in Philadelphia, Pennsylvania.

International Shoe Company

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THE ANNUAL MEETING OF STOCKHOLDERS WILL BE HELD AT 10:00 A. M. ON FEBRUARY 27, 1956 AT THE COMPANY'S GENERAL OFFICES, 1509 WASHINGTON AVENUE, ST. LOUIS, MISSOURI

DIRECTORS

CARL E. BRUECKMANN
HAROLD M. FLORSHEIM
IRVING S. FLORSHEIM
BYRON A. GRAY
CLEMENCE L. HEIN
PAUL B. JAMISON
ANDREW W. JOHNSON
J. LEE JOHNSON
LEE C. McKINLEY
ROBERT O. MONNIG
HAROLD F. OYAAS
OLIVER F. PETERS
JAMES T. PETTUS
HENRY H. RAND
REZIN H. RICHARDS
RICHARD O. RUMER
LAURENCE M. SAVAGE
ALBERT V. WHEELER

OFFICERS

BYRON A. GRAY
Chairman of the Board

HENRY H. RAND
President

ANDREW W. JOHNSON
Vice-President and Treasurer

OLIVER F. PETERS
Vice-President

ROBERT O. MONNIG
Vice-President and Comptroller

J. LEE JOHNSON
Vice-President

REZIN H. RICHARDS
Vice-President

HAROLD M. FLORSHEIM
Vice-President

CARL E. BRUECKMANN
Secretary and Asst. Treasurer

WARREN P. METZ
Asst. Secretary

WILLIAM J. BANKS
Asst. Comptroller

GENERAL OFFICES

1509 Washington Ave.
St. Louis 3, Mo.

TRANSFER AGENTS

Manufacturers Trust Company
New York, N. Y.

Mercantile Trust Company
St. Louis, Mo.

REGISTRARS

Guaranty Trust Company
New York, N. Y.

St. Louis Union Trust Company
St. Louis, Mo.

Highlights of the Year 1955

Fiscal Years Ended November 30	1955	1954	Increase *Decrease*	Per Cent
Net Sales	**$262,413,803**	$246,764,550	$15,649,253	6
Civilian	**258,379,047**	244,939,894	13,439,153	5
Military	**4,034,756**	1,824,656	2,210,100	121
Income before Federal and Canadian Income Taxes	**21,847,252**	21,659,431	187,821	1
Federal and Canadian Taxes on Income	**11,448,471**	11,592,019	*143,548*	*1*
*Net Income	**10,414,006**	10,203,110	210,896	2
Percent of Net Sales	**4.0**	4.1	*.1*	
Per Share	**3.10**	3.01	.09	3
Total Dividends Paid	**8,095,087**	8,130,967	*35,880*	
Dividends per Share	**2.40**	2.40		
Income Retained	**2,318,919**	2,072,143	246,776	12
Current Assets	**123,538,008**	124,309,975	*771,967*	*1*
Current Liabilities	**27,222,650**	38,704,152	*11,481,502*	*30*
Working Capital	**96,315,358**	85,605,823	10,709,535	13
Working Capital Ratio	**4.5**	3.2		
Employees' Notes Receivable	**2,814,593**	3,103,110	*288,517*	*9*
Customers' Loans Receivable	**6,032,620**	5,076,059	956,561	19
Long-Term Debt	**44,655,000**	33,552,278	11,102,722	33
Net Physical Properties	**36,799,896**	35,787,477	1,012,419	3
Maintenance and Repairs	**4,450,365**	4,047,177	403,188	10
Depreciation	**2,946,305**	2,661,523	284,782	11
Accumulated Depreciation	**41,014,628**	40,728,756	285,872	1
Production in Pairs	**52,313,612**	50,775,312	1,538,300	3
Civilian	**51,599,952**	50,490,260	1,109,692	2
Military	**713,660**	285,052	428,608	150

*After adjustment for minority interests.

Annual message . . .

from the Chairman of the Board and the President

. . . to our stockholders

Company results for its fiscal year 1955 were affected by a strike of the parent Company's C. I. O. and A. F. L. shoe workers which began on November 7, 1955. About three-fourths of the parent Company's shoe factories were closed on that date and did not reopen until Monday, December 5. Production was curtailed at certain other plants because of interruption in the flow of supplies. Only one of the Company's finished shoe warehouses and distributing plants was struck. The remaining finished shoe warehouses and distributing plants were in operation on filling of orders and preparation of shipments, but picketing at the truck entrances prevented the shipment of shoes. It is estimated that the loss of production amounted to 2,250,000 pairs of shoes, and that the shipments for the year were reduced by approximately $5 million.

Brief comments on significant Company matters follow. Other pages of this report provide more complete information on these and other subjects.

Consolidated net sales of $262 million were the largest in the history of our Company, exceeding by $11 million the previous high of $251 million in 1953. The 1955 sales showed an increase of over $15 million or 6% over the prior year. Approximately $6 million of the sales increase was due to the inclusion of Savage Shoes Ltd. for the full year of 1955 against only about two months in 1954.

Consolidated net income before taxes was $187,821 greater than in the preceding year. After taxes net income was $10,414,006 or 2% greater. Per share net income amounted to $3.10 compared with $3.01 in 1954.

Dividends were $2.40 per share as in the previous year. The 179th consecutive dividend on our Company's stock was paid on January 1, 1956, completing 43 years of uninterrupted payments.

Our Company's production for its fiscal year ended November 30, 1955, was 3% greater than in the prior year.

The Florsheim Shoe Company exceeded all previous records in both sales and earnings in the year 1955.

Savage Shoes Ltd. of Canada completed an excellent year in both sales and earnings. This was the first full year in which it has operated in the International affiliated group.

Shoenterprise Corporation continued in 1955 to perform its now well-established function of assisting in the setting up of retail outlets for our products, where such outlets are needed.

Lefatex, Inc., formed in 1954 to conduct the business set up under the agreement reached in 1953 between our Company and George O. Jenkins Co. with Salamander Aktiengesellschaft of Kornwestheim (Bei Stuttgart) Germany, for the American manufacture and distribution of leather fibre materials developed by Salamander, completed its plant in the latter part of the year and operations were well under way at year end.

The new Bryan, Texas, plant for processing of rubber composition heeling and soling materials reached a production level of 85% of capacity at year end. The time required for reaching a point of efficient, economical production extended over a somewhat longer period than earlier anticipated, but it is believed that most of the problems which had to be solved are behind us, and profitable operation should be experienced in 1956.

Our Company's three remaining New England shoe factories were closed prior to the end of our fiscal year. The production of these men's factories was merged with the production of the men's factories in the Middle West.

During the year the United Shoe Machinery Corporation presented to the industry new terms for the acquisition and use of its machines. Under these terms the user of the machine has the option of buying or renting. Our Company purchased a number of machines already in use in our factories at a cost of $1.5 million. This move was made after studies indicated substantial savings.

The strike referred to at the opening of this letter was the first company-wide strike our parent Company has experienced in its history. Briefly, the contract which ended the strike provides for an increase in wage rates of 5% as of October 1, 1955 and a further increase of 3% on April 1, 1956. The contract is firm for two years. An additional 3% to provide for pensions effective in the 3rd year is

subject to later final approval by the unions. At this point it is sufficient to say that your management considers the strike a most unfortunate development for all concerned. While the Company's profits were adversely affected, probably the most important consideration is the loss of wages by approximately 18,000 workers. This is the only time we have not been able to reach an agreement without work interruption with the representatives of the two principal employee groups. Information from our plants since the return to work on December 5 indicates no bitterness and we are hopeful that we can enjoy steady operation for many, many years without a recurrence of such an unfortunate development.

Our Company's shoe prices were advanced October 1, 1955. This resulted from the steady advance in costs which we have experienced over the last two years. The last general change in prices occurred on December 1, 1952.

Early in 1955 our Company borrowed $12 million from a private source on a ten-year 3⅛% note payable in annual installments from 1958 to 1965. This addition to our long-term borrowing resulted in the complete elimination of short-term borrowing at the close of the year. These changes are reflected in the improvement in our current ratio of 4.5 at November 30 compared with 3.2 a year earlier.

During the fall a preliminary agreement was reached with the Internal Revenue Department covering the Company's claims under Section 722 of the Internal Revenue Code. The agreement is subject to the approval of the Joint Committee of Congress on Internal Revenue Taxation. It is hoped that final approval will be obtained in 1956.

Progress in the reduction of expenses continued in 1955. Studies have continued as to the accomplishments possible with new high-speed data processing equipment including the electronic computer. These indicate substantial direct and indirect benefits from the use of high speed calculating machines in the areas of inventory control, procurement and production scheduling. Payroll preparation and related accounting work afford additional opportunities for saving with this equipment.

1955 failed to accomplish results which your management foresaw a year ago, principally due to the unfortunate strike situation in the last weeks of the year. However, that is now behind us and we enter 1956 with our principal employee contracts established for at least two years. Plants are running full. Orders received from our salesmen since they began selling the spring line have been running ahead of a year ago. The new selling prices established October 1 should improve our margins and several developments of the last year or more in the direction of improved earnings should reach a point of realization in 1956. These combined with the generally favorable outlook, cause your management to believe 1956 will be a very good year for our Company.

FOR THE BOARD OF DIRECTORS

January 6, 1956

Byron A. Gray
CHAIRMAN OF THE BOARD

Henry H. Rand
PRESIDENT

EDGAR E. RAND
1905-1955

We record with profound sadness the death on October 26, 1955, of Edgar E. Rand, President of the Company. He died from a heart attack while attending the National Shoe Fair in Chicago.

He began his career with the International Shoe Company on graduation from Vanderbilt University in 1927. After serving the Company in various capacities, he was elected a director of the Company in 1939, a vice-president in 1947 and president in 1950.

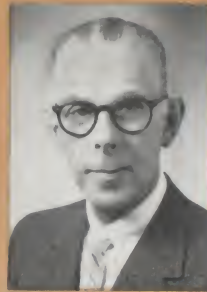
He spent about two years in Washington, D. C., during World War II serving the Government, principally with the Office of Price Administration and the War Production Board. His civic, educational and philanthropic activities were many.

He came into the office of president well equipped to fulfill the responsibilities of the position. The soundness of his judgment and the excellence of his leadership, together with the manner in which he represented the Company on all occasions, won for him admiration, respect and goodwill throughout the Company and the industry.

He will be greatly missed.

CARL E. BRUECKMANN
Secretary and Assistant Treasurer
47 Years of Service

HAROLD M. FLORSHEIM
Vice-President
President, The Florsheim Shoe Company
37 Years of Service



IRVING S. FLORSHEIM
Chairman
The Florsheim Shoe Company
42 Years of Service

CLEMENCE L. HEIN
General Manager
Vitality Sales Division
26 Years of Service

PAUL B. JAMISON
Retired,
Former Vice-President
51 Years of Service

BYRON A. GRAY
Chairman of the Board
46 Years of Service

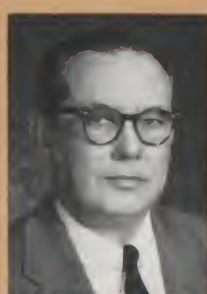
ANDREW W. JOHNSON
Vice-President and Treasurer
48 Years of Service

J. LEE JOHNSON
Vice-President
Industrial and Public Relations
28 Years of Service

LEE C. McKINLEY
General Manager
Upper Stock and Miscellaneous Procurement
34 Years of Service

DIRECTORS OF INTERNATIONAL SHOE COMPANY

HENRY H. RAND
President
26 Years of Service



ROBERT O. MONNIG
Vice-President and Comptroller
41 Years of Service

HAROLD F. OYAAS
General Manager
Friedman-Shelby Sales Division
28 Years of Service

OLIVER F. PETERS
Vice-President
44 Years of Service

JAMES T. PETTUS
Retired,
Former Vice-Chairman of the Board
58 Years of Service

REZIN H. RICHARDS
Vice-President
General Manager
Supply and Service Plants
32 Years of Service

RICHARD O. RUMER
General Counsel
26 Years of Service

LAURENCE M. SAVAGE
President
Savage Shoes Limited
28 Years of Service

ALBERT V. WHEELER
General Manager Women's Specialty Sales Divisions
34 Years of Service

Years of service include service with companies which subsequently became a part of International Shoe Company

How we used our 1955 Sales Dollar

48.0¢	For materials, supplies and expenses	$126,164,292	
41.9¢	For employees' pay and benefits	109,843,202	
1.1¢	For tools wearing out (depreciation)	2,946,305	
5.0¢	For payments ordered by Government (taxes—excluding social security)	13,045,998	
3.1¢	For dividends to stockholders	8,095,087	
.9¢	Remainder used in the business	2,318,919	
100.0¢		$262,413,803	

Sales

The 1955 net sales of $262,413,803 were the largest in the Company's history. They exceeded by $11,386,104 the previous high of $251,027,699 in 1953.

The 1955 net sales represented an increase of $15,649,253, 6% over the prior year. The increase was principally in civilian sales. Military sales of $4,034,756 compared with $1,824,656 in 1954.

The $15.6 million sales increase included about $6 million which resulted from the inclusion of Savage Shoes Ltd. for the full year 1955 compared with only two months in 1954.

It is estimated that sales were approximately $5 million less than they would have been had operations not been interrupted by the strike.

Almost all of the Company's sales divisions produced increases in 1955. A particularly strong showing was made in a line of men's dress shoes retailing from $6.95 to $8.95 which was first introduced in 1954. The sales of this line ran so far ahead of expectations that it was necessary to turn over several complete factories to the production of these shoes.

The Florsheim Shoe Company made a substantial contribution to the consolidated sales increase, its sales reaching a record high figure for that company.

Country-wide, retail shoe sales for 1955 were at a good level, showing a healthy increase over 1954. Reports covering fairly large groupings of stores show increases in dollar volume running from 5% up to 8%.

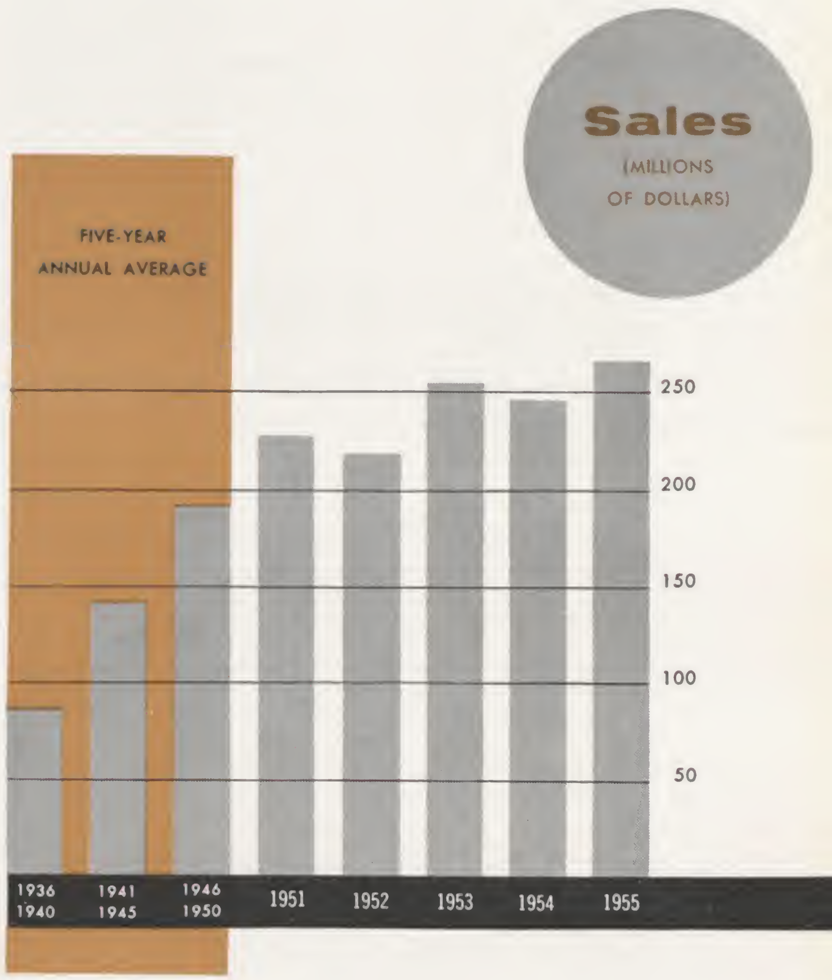
Such an increase of 5% to 8% at retail does not appear to be in line with the reported increase in industry unit production of more than 11%. Since the reported average wholesale price per pair of shoes decreased only slightly over 1%, this raises the question of overproduction, particularly in certain types of shoes.

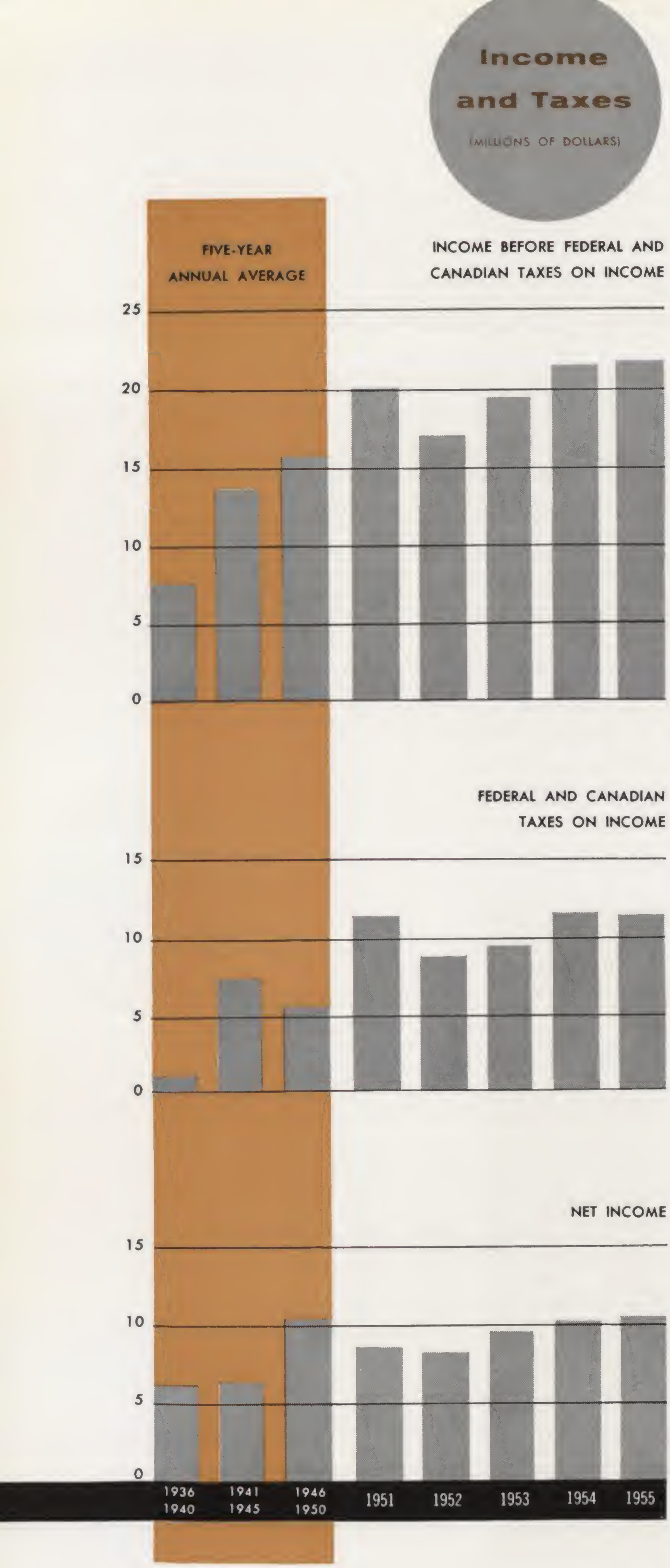
Our Company's experience does not raise the same question. The reports from retail stores handling our product show retail increases similar to the national figures of 5% to 8%, well in line with our wholesale increases. This indicates no pile-up of our shoes at the retail or the wholesale level.

Income

Net income of $10,414,006 compared with $10,203,110 in 1954, an increase of $210,896. Per share net income amounted to $3.10 versus $3.01 in 1954. Income before federal income taxes amounted to $21,847,252 compared with $21,659,431 in 1954, an increase of $187,821.

While the strike was the principal cause of the failure of earnings to come up to management's earlier expectations, a contributing factor was the higher raw material prices which prevailed in the latter part of the year. When these were combined with other items of increased cost which our Company absorbed for about two years, as explained under "Costs and Prices," they produced a definite squeeze on our margins. Selling prices were raised on October 1; however the increase was not realized on shipments in the year 1955, except on a comparatively small amount of business.





Dividends

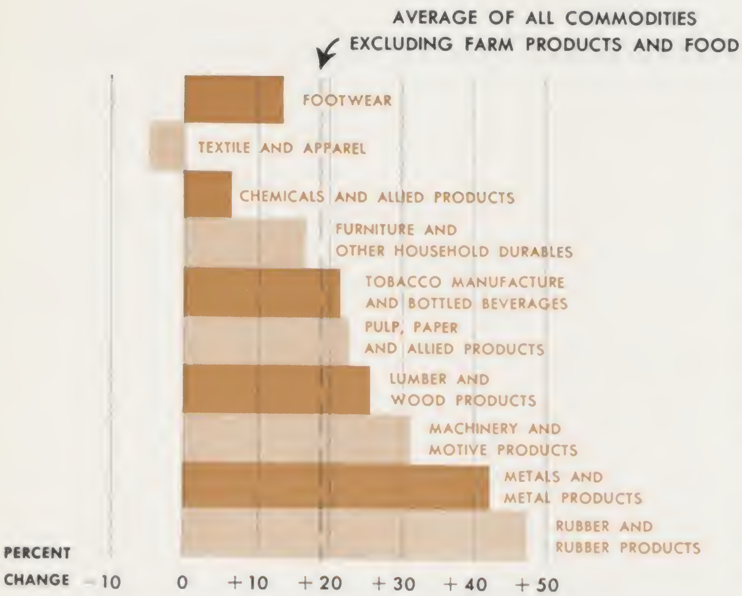
The January 1, 1956, dividend was the 179th consecutive dividend paid on Company stock, completing 43 years of uninterrupted payments. The annual dividend paid in 1955 was $2.40 per share. This continues the 60¢ quarterly rate which has been paid regularly since April 1, 1950.

Costs and Prices

Shoe prices were advanced by our Company on October 1, 1955, the first general change in shoe prices since December 1, 1952. Price increases were general throughout the shoe industry. This necessary change in the price level was accepted as being economically sound by retailers generally and it is believed that consumers are taking it as a matter of course. The accompanying chart showing the changes in wholesale commodity prices since 1947-1949 shows that footwear prices have moved up less than many other items, especially those in the consumer durable field.

The price increase of October 1 was long delayed. Costs resulting from wage contracts almost two years earlier had never been reflected in our selling prices. These consisted principally of increased employee fringe benefits, accident and health, hospital and surgical benefits, a third week of vacation and an increase in social security taxes of ½ of 1%. Other costs such as those resulting from the steady increase in the variety of shoes demanded by and placed before the consumer added to the pressure for higher prices. When the raw materials markets firmed beginning in the spring of 1955, our margins were squeezed to the point that made a price increase altogether necessary. Another consideration was the granting of wage increases in most heavy goods industries and the threat of considerable pressure for increased wages in the soft goods industries. Further increases in the price of shoes probably will be necessary following the March 1 increase in the legal minimum wage rate and wage increases currently being put into effect throughout the industry.

Moves toward consolidation of our Company's production by transferring men's production from eastern factories to western factories and by reducing the number of leather sole cutting plants will



CHANGES IN WHOLESALE COMMODITY PRICES
1947-1949 to October, 1955
(U. S. DEPARTMENT OF COMMERCE)

result in increased efficiency and economy in this phase of our business in the year 1956.

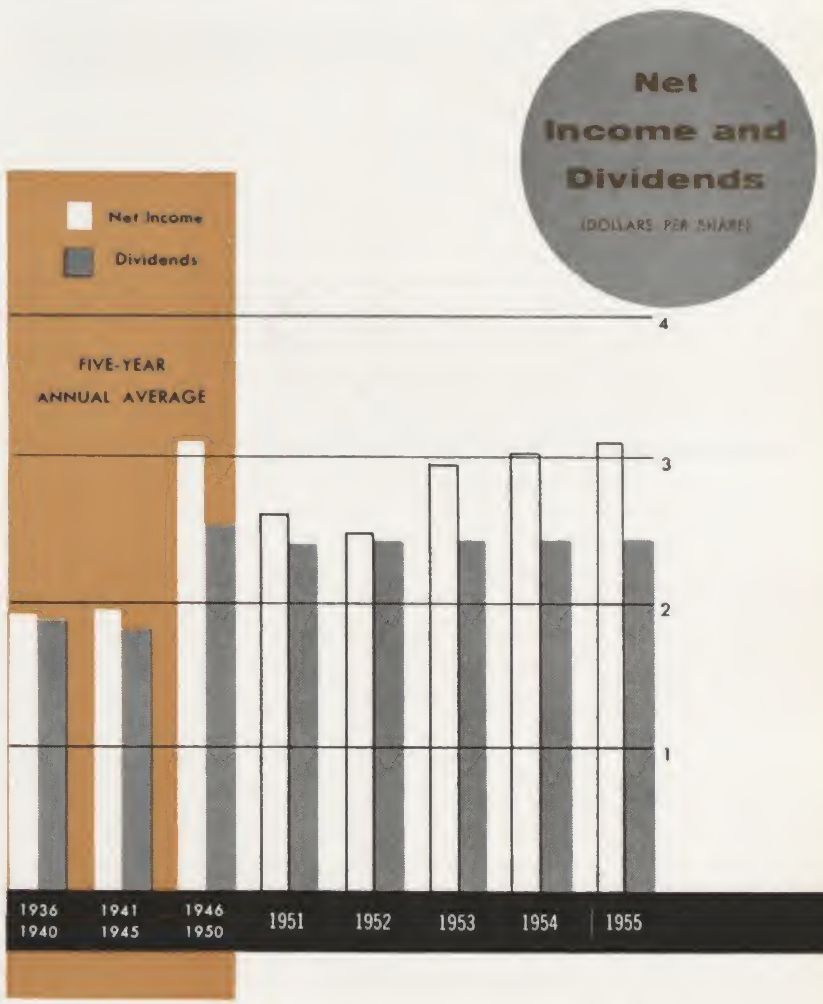
During the year three separate studies were completed on the possible advantages of the use of one of the large electronic computers. As a result of these studies our Company plans to bring one of these into use early in 1957. Careful preparation for the machine is under way and it is expected that the training of personnel and the completion of work which must precede the actual inauguration of the use of the machine will be completed in 1956. The more important areas in which it appears much can be accomplished by the use of high speed are those of inventory control, material procurement and production scheduling. The constant increase in shoe styles has increased the number of merchandise items which we produce and stock to approximately 350,000. The speedy development of accurate and precise information on the Company's position in the areas mentioned will be of great value.

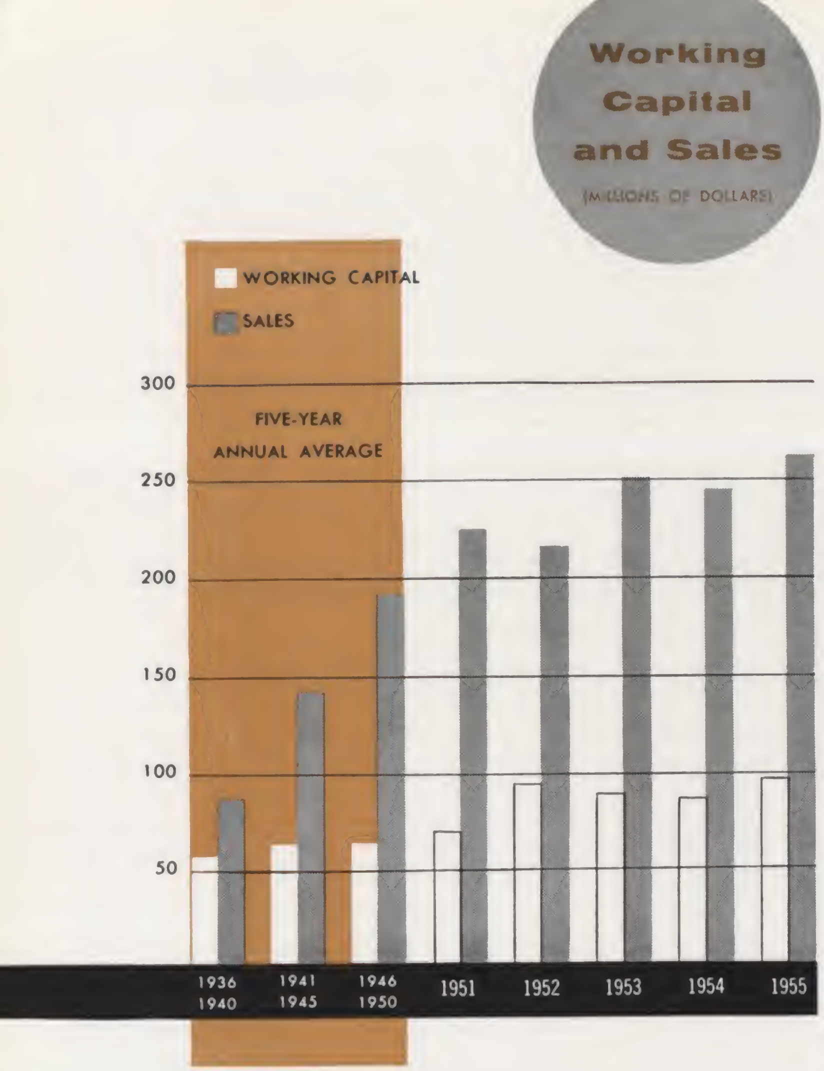
Taxes

The prospects for a federal corporate income tax rate of less than 52% remain dim. The date for expiration of the present 52% rate was postponed on April 1, 1954 and April 1, 1955, and present indications are again that it will be postponed on April 1, 1956.

The Company's claims under Section 722 I.R.C., the first of which was filed in 1943, should be brought to a conclusion during the year 1956. Discussions between Government and Company representatives held during the fall resulted in a preliminary agreement which is now subject to approval of the Joint Committee of Congress on Internal Revenue Taxation. It is hoped that final approval will be given sometime in 1956 and that the claims will be paid before the end of the year.

Examination of the parent Company's federal tax returns for the years 1951, 1952, 1953 and 1954 has been completed and the Company is in agreement with the Revenue agent as to the correct amount of tax for each of those years. While there are deficiencies in some years these are offset by overassessments in the other years, the net of which is a small overassessment for the four-year period.





Production

The production of our shoe factories was 52,313,612 pairs in 1955 compared with 50,775,312 in 1954, an increase of 3 per cent.

The comparison is affected by three things: first, the loss of production because of the strike estimated at 2,250,000 pairs; second, the inclusion of Savage production for the full year in 1955 and only for two months in 1954, difference two million pairs; and third, our inventory of finished shoes was 1.6 million pairs less at the close of 1955 than it was at the close of 1954. If adjustment is made for these things, our production increase would have been about 6½%.

Our plants produced leather, cut soles, rubber heels and soles, cotton textiles and many other articles for use by us in the manufacture of shoes in the quantities shown in the production summary on the opposite page.

Shoe industry production figures are expected to show an increase of more than 11% for the 12-month period representing our fiscal year. Increases by types will vary considerably, with individual categories ranging from 2% on women's regular shoes and 3% on children's, up to 35% on sandals and playshoes. This latter classification will account for about one-half of the entire increase. Except for this one category, sandals and playshoes, the increase in production will be about 6%.

Source and Distribution of Funds

The net increase of $11,102,722 in long-term indebtedness resulted from:

(a) New 3⅛% long-term loan of $12 million.
(b) Payment in full of the Florsheim Shoe Company promissory notes.
(c) Payment in full of the Savage Shoes Limited 4½% notes.

The increase in long-term indebtedness completely eliminated short-term borrowing which amounted to $10,087,709 at the close of the prior year. This was reflected in an increase in working capital amounting to $10,709,535.

The excess of $1,012,419 of net additions to physical properties over depreciation was made up principally of investment in the completion of the plant of Lefatex, Inc., and some increase in the physical property accounts of the Florsheim Shoe Company and Shoenterprise Corporation.

The acquisition of Company's own common stock in the amount of $1,184,076 was under the Company's regular program of stock purchase and stock option plans for its executive employees.

Funds were acquired from sources as follows:	
Net increase—Long-term indebtedness	**$11,102,722**
Net income for the year	**10,414,006**
Depreciation of physical properties	**2,946,305**
Decrease in employees' notes receivable	**288,517**
Increase in minority interest in subsidiary companies	**267,558**
Reduction in sundry investments and deferred charges	**249,562**
Acquired capital surplus	**740**
	$25,269,410
These funds were distributed as follows:	
Increase in working capital	**$10,709,535**
Dividends paid, on parent company's common stock	**8,095,087**
Net additions to physical properties	**3,958,724**
Acquisition of parent company's own common stock	**1,184,076**
Increase in customers' loans receivable	**956,561**
Increase in excess of investment over equity in subsidiaries (net)	**365,427**
	$25,269,410

Production Summary

Our Company's principal production is shoes.
During 1955, we produced:

SHOES

For Men and Boys	Pairs	16,248,724	*Consisting principally of this type of production our sales amounted to* $262,413,803
For Women and Girls	Pairs	15,683,891	
For Children	Pairs	18,863,623	
House Slippers	Pairs	1,517,374	
	Total	52,313,612	

However, our Company carries on a vast amount of other production of materials and supplies used principally by us in the manufacture of shoes. During 1955, we produced:

MATERIALS FOR SHOE UPPERS

Leather for Uppers (including Linings) from Cattle Hides and Lambskins (Calfskins tanned under contract not included)	Feet	60,633,253	*This type of production had an aggregate value of* $17,931,171
Cloth for Linings from Cotton	Yards	7,949,190	

MATERIALS FOR SHOE BOTTOMS

Soles, of Leather (some shoes take several soles)	Pairs	37,633,540	*This type of production had an aggregate value of* $29,250,675
Soles, of Rubber	Pairs	16,727,154	
Counters, of Leather	Pairs	13,919,136	
Heels, of Leather (some shoes take leather and rubber heels)	Pairs	3,902,741	
Heels, of Rubber	Pairs	20,662,966	
Leather, for soles from Cattle Hides	Pounds	16,120,094	
	Feet	5,535,190	
Welting, Leather	Yards	15,371,298	

OTHER MATERIALS AND SUPPLIES used in shoes and for fastening, making and packaging shoes

Boxes, Box Toes, Cartons, Cements, Chemicals, Patterns and others	Not Itemized	*This type of production had an aggregate value of* $8,662,641

Total Value of Production—Shoes and Materials and Supplies $318,258,290

Consolidated Financial Position

INTERNATIONAL SHOE COMPANY

	November 30, 1955	1954
CURRENT ASSETS:		
Cash	$ 10,628,750	$ 9,392,624
United States Government securities, at cost	10,000	1,050,000
Receivables—trade and sundry, less allowance for cash discounts and doubtful accounts	40,621,481	40,334,947
Inventories (Note 2)	71,848,072	72,968,219
Prepaid insurance premiums, taxes and sundry	429,705	564,185
Total Current Assets	123,538,008	124,309,975
LESS—CURRENT LIABILITIES:		
Notes payable to banks	—	10,087,709
Current maturities of long-term debt (Note 4)	140,416	602,389
Accounts payable and accrued expenses	14,022,691	14,916,079
Employees' balances and tax withholdings	1,522,926	1,122,480
Federal and Canadian taxes on income, estimated	11,536,617	11,975,495
Total Current Liabilities	27,222,650	38,704,152
Net Working Capital	96,315,358	85,605,823
OTHER ASSETS:		
Employees' notes receivable for stock, secured by 103,932 shares and 110,063 shares of parent company's common stock	2,814,593	3,103,110
Customers' secured loans, deferred maturities	6,032,620	5,076,059
Parent company's own common stock held for resale to employees, 40,497 shares and 13,797 shares, at cost	1,726,795	542,719
Sundry investments and deferred charges	902,289	1,151,851
	11,476,297	9,873,739
PHYSICAL PROPERTIES—based on appraisal April 30, 1925, plus subsequent additions at cost, less accumulated depreciation (Note 3)	36,799,896	35,787,477
Excess of investment over equity in subsidiaries (net)	644,047	278,620
	145,235,598	131,545,659
DEDUCT:		
Long-term debt, less current maturities (Note 4):		
3½% promissory installment notes due 1962 to 1982	30,000,000	30,000,000
3⅛% promissory installment note to bank due 1958 to 1965	12,000,000	—
Mortgage notes to banks due $8,333 monthly and balance in 1956	2,100,000	2,199,998
5½% sinking fund debentures, annual deposits required to 1966	555,000	603,750
2¾% promissory installment notes	—	648,530
4½% installment notes	—	100,000
Minority interests in subsidiaries	1,151,979	884,421
	45,806,979	34,436,699
Stockholders' Equity	$ 99,428,619	$ 97,108,960
REPRESENTED BY:		
Common stock without nominal or par value: Authorized 4,000,000 shares; issued 3,400,000 shares	$ 51,000,000	$ 51,000,000
Capital in excess of stated amount	1,333,842	1,333,102
Retained earnings (Note 5)	47,094,777	44,775,858
	$ 99,428,619	$ 97,108,960

See accompanying notes to financial statements.

Consolidated Income

INTERNATIONAL SHOE COMPANY

Years Ended November 30,	1955	1954
Sales and Other Income:		
Net sales	$262,413,803	$246,764,550
Income from rentals and services	329,725	306,083
Interest and other income	638,085	501,315
	263,381,613	247,571,948
Deductions:		
Cost of sales, selling, general and administrative expenses (Note 7)	239,323,626	223,893,906
Interest and amortization of expense on long-term debt	1,485,979	1,198,194
Other interest and sundry charges	724,756	820,417
	241,534,361	225,912,517
Income before Federal and Canadian taxes on income	21,847,252	21,659,431
Federal and Canadian taxes on income, estimated	11,448,471	11,592,019
	10,398,781	10,067,412
Proportion of net loss of subsidiaries applicable to minority interests	15,225	135,698
NET INCOME FOR YEAR APPLICABLE TO CAPITAL STOCK OF COMPANY	$ 10,414,006	$ 10,203,110

Consolidated Retained Earnings

Years Ended November 30,	1955	1954
Balance at beginning of year	$ 44,775,858	$ 42,703,715
Net income for year applicable to capital stock of company	10,414,006	10,203,110
	55,189,864	52,906,825
Dividends on common stock—$2.40 per share each year	8,095,087	8,130,967
Balance at end of year	$ 47,094,777	$ 44,775,858

See accompanying notes to financial statements.

Notes to Financial Statements....

(1) PRINCIPLES OF CONSOLIDATION:

All subsidiaries (including one Canadian) with a 51% or greater ownership are included in the consolidated financial statements in accord with established policy of the Company. Operating results from acquisition date of newly acquired subsidiaries are included in consolidated income.

Insofar as practicable, all intercompany accounts, transactions and unrealized profit in inventories have been eliminated in consolidation.

(2) INVENTORIES:

Inventories at November 30, 1955 and 1954, are summarized below:

	1955	1954
Finished shoes	$31,120,910	$35,774,348
Shoes in process	4,552,956	4,450,377
Hides and leather	14,426,007	13,330,720
Miscellaneous materials on hand and in process	21,748,199	19,412,774
	$71,848,072	$72,968,219

Forty percent of the inventories are priced at cost (last-in, first-out) while the remainder, including all miscellaneous materials and supplies, are priced at the lower of cost (first-in, first-out) or November 30, 1955, replacement market.

(3) PHYSICAL PROPERTIES:

A summary of physical properties at November 30, 1955 and 1954, is as follows:

	1955	1954
Land and water rights	$ 3,431,838	$ 3,456,166
Buildings and structures	39,474,275	39,485,774
Machinery and equipment	34,908,410	33,574,292
Lasts, patterns and dies	1	1
	$77,814,524	$76,516,233
Less accumulated depreciation	41,014,628	40,728,756
	$36,799,896	$35,787,477

Properties of Twelfth-Delmar Realty Company (net balance November 30, 1955, $2,838,157) are pledged as collateral on mortgage notes payable to banks.

(4) LONG-TERM DEBT:

The 3½% promissory notes are payable $1,125,000 annually October 1, 1962 through 1981, with the remainder payable in 1982. Certain prepayment privileges are allowed in the note agreement.

The 3⅛% promissory note payable to bank is payable $1,500,000 annually May 15, 1958 through 1964, and the balance due February 15, 1965. Certain prepayment privileges are allowed in the note.

The mortgage notes payable to banks, an obligation of Twelfth-Delmar Realty Company, are payable $8,333 monthly with the balance due in 1956.

The 5½% sinking fund debentures, an obligation of Savage Shoes Limited, require annual sinking fund payments of $48,750 to December 1, 1961, and $52,500 annually thereafter.

(5) RETAINED EARNINGS RESTRICTIONS:

Retained earnings of $28,470,720 at November 30, 1955, are restricted as to payment of cash dividends on common stock by the 3½% promissory note agreement and are further restricted by $1,726,795, the cost of parent company's own common stock reacquired. The promissory note agreement also provides that no payment be made for dividends unless consolidated net working capital shall be at least $50,000,000.

(6) STOCK OPTIONS:

Options to certain executive and administrative employees were outstanding to the extent of 30,150 shares of common stock at November 30, 1955. Such options are exercisable October 18, 1959, at $40 per share (market price at date of grant $41¾).

(7) CERTAIN CHARGES TO OPERATIONS:

Certain charges to operations for 1955 and 1954 are as follows:

	1955	1954
Depreciation of physical properties	$2,946,305	$2,661,523
Maintenance and repairs	4,450,365	4,047,177
Taxes other than income taxes	4,805,768	4,635,699
Rentals of real property	3,462,400	3,204,974
Rentals of shoe machinery	3,453,721	3,628,634

(8) RENEGOTIATION:

Renegotiable sales of the year are not material while those of past years have been reviewed with no refunds required.

Accountants' Report

To The Board of Directors,

International Shoe Company

We have examined the statement of consolidated financial position of International Shoe Company and subsidiaries as of November 30, 1955, and the related statements of income and retained earnings for the year then ended. Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of consolidated financial position and statements of consolidated income and retained earnings present fairly the financial position of International Shoe Company and subsidiaries at November 30, 1955, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

St. Louis, Missouri
January 4, 1956

10 Year Comparison

OF CONSOLIDATED FINANCIAL POSITION
INTERNATIONAL SHOE COMPANY

	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946
CURRENT ASSETS:										
Cash	$ 10,628,750	$ 9,392,624	$ 10,124,270	$ 22,999,376	$ 5,991,683	$ 4,342,111	$ 5,844,981	$ 4,637,060	$10,498,601	$ 6,901,687
U. S. Government securities	10,000	1,050,000	1,402,708	169,452	156,666	151,666	151,666	151,666	2,393,487	6,042,386
Receivables—trade and sundry—net	40,621,481	40,334,947	41,027,942	34,471,764	26,210,939	36,126,748	28,891,357	33,787,010	27,109,511	16,893,662
Inventories	71,848,072	72,968,219	72,821,674	59,050,797	58,673,856	47,763,533	47,040,351	51,689,958	43,415,863	42,122,071
Prepaid expenses	429,705	564,185	574,793	975,717	842,262	741,768	675,217	696,008	525,802	543,159
Refunds of Federal taxes on income from carry back	—	—	—	—	—	—	—	—	—	2,211,001
Total current assets	123,538,008	124,309,975	125,951,387	117,667,106	91,875,406	89,125,826	82,603,572	90,961,702	83,943,264	74,713,966
LESS—CURRENT LIABILITIES:										
Current maturities, long-term debt	140,416	602,389	500,490	2,491,666	100,000	100,000	100,000	100,000	—	—
Notes payable to banks	—	10,087,709	14,000,000	—	—	—	3,000,000	5,000,000	—	—
Accounts payable and accrued expenses	14,022,691	14,916,079	13,113,235	12,842,272	9,347,708	12,227,226	8,860,138	10,573,858	9,664,675	10,690,654
Employees' balances and tax withholdings	1,522,926	1,122,480	1,312,315	1,210,580	858,733	1,057,240	780,630	954,892	1,141,559	825,672
Federal and Canadian taxes on income, estimated	11,536,617	11,975,495	10,682,372	9,030,159	13,508,261	8,255,215	4,742,743	8,861,537	8,958,894	1,699,676
Total current liabilities	27,222,650	38,704,152	39,608,412	25,574,677	23,814,702	21,639,681	17,483,511	25,490,287	19,765,128	13,216,002
Net working capital	96,315,358	85,605,823	86,342,975	92,092,429	68,060,704	67,486,145	65,120,061	65,471,415	64,178,136	61,497,964
OTHER ASSETS:										
Federal income taxes recoverable under section 22 (d) (6) I. R. C.	—	—	676,077	676,077	676,077	676,077	676,077	3,088,123	2,674,617	2,468,200
Employees' notes receivable for stock, secured	2,814,593	3,103,110	3,484,698	3,170,196	2,025,138	2,361,947	2,295,450	2,400,501	2,482,764	—
Customers' secured loans, deferred maturities	6,032,620	5,076,059	5,156,806	3,537,073	1,948,247	1,099,820	—	—	—	—
Company's own common stock	1,726,795	542,719	362,794	281,607	349,894	30,039	—	—	—	243,134
Sundry investments and deferred charges	902,289	1,151,851	1,644,149	761,403	847,820	840,513	895,877	826,590	725,405	548,074
	11,476,297	9,873,739	11,324,524	8,426,356	5,847,176	5,008,396	3,867,404	6,315,214	5,882,786	3,259,408
PHYSICAL PROPERTIES:										
Land and water rights	3,431,838	3,456,166	3,421,306	2,933,693	2,809,600	2,814,968	2,857,747	2,860,405	1,874,317	1,898,353
Buildings and structures	39,474,275	39,485,774	37,268,993	28,413,999	26,978,208	27,075,648	27,953,286	27,461,470	24,005,375	22,393,483
Machinery and equipment	34,908,410	33,574,292	31,006,693	27,042,089	25,724,571	24,721,002	24,942,467	23,889,984	22,754,390	20,994,245
Lasts, patterns, and dies	1	1	1	1	1	1	1	1	1	1
	77,814,524	76,516,233	71,696,993	58,389,782	55,512,380	54,611,619	55,753,501	54,211,860	48,634,083	45,286,082
Less depreciation	41,014,628	40,728,756	38,479,777	35,380,035	33,270,533	32,019,045	31,922,539	30,434,840	29,684,558	29,365,305
	36,799,896	35,787,477	33,217,216	23,009,747	22,241,847	22,592,574	23,830,962	23,777,020	18,949,525	15,920,777
Excess of investment over equity in subsidiaries (net)	644,047	278,620	9,770	(79,506)	(270,129)	—	—	—	—	—
Total assets less current liabilities	145,235,598	131,545,659	130,894,485	123,449,026	95,879,598	95,087,115	92,818,427	95,563,649	89,010,447	80,678,149
DEDUCT:										
Long-term debt	44,655,000	33,552,278	34,957,352	30,000,000	2,591,666	2,691,667	2,891,667	2,991,667	—	—
Minority interests in subsidiary companies	1,151,979	884,421	900,316	214,369	212,923	—	—	—	—	—
Reserves:										
For excess cost of replacing lifo inventories	—	—	—	—	—	—	—	65,000	150,000	210,000
For insurance	—	—	—	—	—	—	—	608,669	608,669	713,789
	45,806,979	34,436,699	35,857,668	30,214,369	2,804,589	2,691,667	2,891,667	3,665,336	758,669	923,789
Stockholders' equity	$ 99,428,619	$ 97,108,960	$ 95,036,817	$ 93,234,657	$93,075,009	$92,395,448	$89,926,760	$91,898,313	$88,251,778	$79,754,360
REPRESENTED BY:										
Common stock	$ 51,000,000	$ 51,000,000	$ 51,000,000	$ 51,000,000	$51,000,000	$51,000,000	$51,000,000	$51,000,000	$51,000,000	$50,250,000
Capital in excess of stated amount	1,333,842	1,333,102	1,333,102	1,323,015	1,354,289	1,354,289	1,354,289	1,354,289	1,354,289	—
Retained earnings	47,094,777	44,775,858	42,703,715	40,911,642	40,720,720	40,041,159	37,572,471	39,544,024	35,897,489	29,504,360
	$ 99,428,619	$ 97,108,960	$ 95,036,817	$ 93,234,657	$93,075,009	$92,395,448	$89,926,760	$91,898,313	$88,251,778	$79,754,360

44 Year Review

OF CONSOLIDATED INCOME, FEDERAL AND CANADIAN TAXES ON INCOME AND DIVIDENDS

Fiscal Year	Net Sales	Net Income before Federal and Canadian Taxes	Federal and Canadian Taxes on Income (a)	Net Income	Dividends Declared on Preferred Stock	Net Income Available for Common Stock	Net Income per Share on Common Stock (b)	Dividend Rate per Share on Common Stock	Shares of Outstanding Preferred Stock (c)	Shares of Outstanding Common Stock (c)
1912	$ 20,990,643	$ 1,955,130	$ 19,308	$ 1,935,822	$ 577,500	$ 1,358,322	$10.65		82,500	127,500(j)
1913	26,005,299	1,834,468	18,762	1,815,706	653,875	1,161,831	9.11	$7.00	94,250	127,500
1914	24,114,860	1,523,619	14,721	1,508,898	659,750	849,148	6.66	7.00	94,250	127,500
1915	24,439,107	1,822,938	18,049	1,804,889	659,750	1,145,139	8.98	6.00	94,250	127,500
1916	33,574,914	4,189,409(d)	79,152	4,110,257(d)	659,750	3,450,507	27.06	7.00	94,250	127,500
1917	45,037,293	5,353,980	1,270,000	4,083,980	697,125	3,386,855	26.56	7.00	100,000	127,500
1918	50,810,947	4,397,880	1,585,000	2,812,880	700,000	2,112,880	16.57	8.00	100,000	127,500
1919	61,247,782	6,917,224	2,250,000	4,667,224	700,000	3,967,224	31.11	7.00	100,000	127,500
1920	75,617,895	8,914,491	2,644,257	6,270,234	846,250	5,423,984	42.54	8.00	122,500	127,500
1921	73,839,153	5,025,441	859,247	4,166,194	1,128,190	3,038,004	3.33	1.68	177,643	911,279(k)
1922	97,366,403	11,739,821	1,502,864	10,236,956	1,414,945	8,822,011	9.60	2.00	179,142	918,006
1923	109,922,738	11,703,988	1,405,347	10,298,641	1,421,753	8,876,888	9.64	2.75	178,000	920,000
1924	110,240,651	15,123,263	2,062,468	13,060,795	1,424,000	11,636,795	12.64	4.00	178,000	920,000
1925	114,265,987	14,594,410	1,872,965	12,721,444	1,424,000	11,297,444	12.27	5.00	100,000	920,000
1926	116,980,835	15,279,118	2,061,542	13,217,576	600,000	12,617,576	13.71	6.00	100,000	920,000
1927	124,306,333	20,478,632	2,780,174	17,698,457	600,000	17,098,457	4.54	1.75	100,000	3,760,000(l)
1928	122,694,532	17,973,205	2,211,429	15,761,775	600,000	15,161,775	4.03	2.00	100,000	3,760,000
1929	132,110,129	19,207,966	2,176,532	17,031,434	600,000	16,431,434	4.37	2.50	100,000	3,760,000
1930	102,393,618	14,597,599	1,723,495	12,874,104	600,000	12,274,104	3.26	3.00	100,000	3,760,000
1931	86,802,293	11,088,135	1,343,319	9,744,815	600,000	9,144,815	2.55	3.00	100,000	3,510,000
1932	65,488,662	7,729,920	1,082,392	6,647,527	600,000	6,047,527	1.80	2.75	100,000	3,350,000
1933	70,343,128	10,764,075	1,673,508	9,090,566	425,810	8,664,756	2.58	2.00		3,350,000
1934	77,168,682	10,866,266	1,899,241	8,967,024		8,967,024	2.67	2.00		3,350,000
1935	83,073,459	10,031,599	1,489,637	8,541,962		8,541,962	2.55	2.25		3,350,000
1936	84,856,709	9,771,444	1,354,517	8,416,926		8,416,926	2.51	2.25		3,350,000
1937	88,278,810	7,394,495	1,127,503	6,266,992		6,266,992	1.87	2.00		3,350,000
1938	80,828,631	4,890,762	622,475	4,268,286		4,268,286	1.27	1.75		3,350,000
1939	89,325,446	8,061,896(e)	1,473,687	6,588,209(e)		6,588,209	1.97	1.75		3,350,000
1940	89,257,329	8,122,117	1,648,505	6,473,611		6,473,611	1.93	1.75		3,350,000
1941	116,530,243	9,691,079	2,484,042	7,207,037		7,207,037	2.15	2.00		3,350,000
1942	144,256,388	16,634,160(f)	9,639,207	6,994,952(f)		6,994,952	2.08	1.80		3,350,000
1943	143,014,252	18,699,794(g)	11,953,882	6,745,912(g)		6,745,912	2.01	1.80		3,350,000
1944	156,869,226	13,236,780	7,257,281	5,979,499		5,979,499	1.78	1.80		3,350,000
1945	149,088,414	10,749,859	5,178,203	5,571,656		5,571,656	1.66	1.80		3,350,000
1946	135,381,520	3,311,780(h)	2,142,767(i)	5,454,547(h)		5,454,547	1.63	1.80		3,350,000
1947	213,325,147	22,616,876	8,600,476	14,016,400		14,016,400	4.12	2.25		3,400,000
1948	220,145,821	22,045,707	8,199,173	13,846,534		13,846,534	4.07	3.00		3,400,000
1949	190,352,585	12,457,127	4,710,611	7,746,516		7,746,516	2.28	3.00		3,400,000
1950	199,009,491	19,385,773	8,248,225	11,137,548		11,137,548	3.28	2.55		3,400,000
1951	225,070,342	20,170,326	11,459,352	8,837,336(m)		8,837,336	2.61	2.40		3,400,000
1952	217,041,923	17,116,375	8,859,003	8,286,892(m)		8,286,892	2.44	2.40		3,400,000
1953	251,027,699	19,508,358	9,687,105	9,930,720(m)		9,930,720	2.93	2.40		3,400,000
1954	246,764,550	21,659,431	11,592,019	10,203,110(m)		10,203,110	3.01	2.40		3,400,000
1955	262,413,803	21,847,252	11,448,471	10,414,006(m)		10,414,006	3.10	2.40		3,400,000

NOTE:

(a) Federal taxes on income include excess profits taxes in years where applicable. (b) Based on shares of common stock outstanding at close of fiscal year. (c) Number of shares outstanding at close of fiscal year; common stock includes, where applicable, Company's own common stock held for re-sale carried as an asset. (d) Before provision of $1,000,000 for trade conditions affecting raw materials market; reserve transferred to surplus during fiscal year 1921. (e) After providing $550,000 for contingencies. (f) After providing $450,000 for contingencies. (g) After providing $222,447 for contingencies. (Net amount of payment to U. S. Government a/c renegotiation.) (h) After including transfer of $1,000,000 reserved for contingencies previously provided by charges to profit and to loss. (i) Net amount of income tax refundable due to carry back provisions of the Internal Revenue Code. (j) Par value of $100 per share. (k) After giving effect to exchange of each share of $100 par value Common Stock (Mo. Corporation) for 6 shares no par value Common Stock (Del. Corp.). (l) After stock split-up on the basis of 4 shares for one. (m) After adjustment for minority interest.

Plant Facilities

The Company's principal plant facilities include:

MANUFACTURING PLANTS		
SHOE FACTORIES	61	Manufacturing Men's, Women's and Children's shoes.
SOLE CUTTING PLANTS	3	Producing leather outsoles, insoles, midsoles, counters and heels.
RUBBER PLANTS	2	Manufacturing rubber soles and heels.
COTTON TEXTILE MILL	1	Producing cloth for shoe linings.
WELT MANUFACTURING PLANT	1	Producing leather welting.
CHEMICAL PLANT	1	Producing finishes, waxes, polishes and cements.
BOX PLANT	1	Producing cartons and containers.
WOOD HEEL COVERING PLANT	1	Covering and finishing wood heels.
LAST REMODELING PLANT	1	Remodeling lasts.
FINDINGS PLANT	1	Producing stripping, piping, bows, box toes and other shoe findings.
DISPLAY SHOP	1	Producing display items for shoe stores.
LEATHER FIBRE PRODUCTS	1	Producing leather fibre materials for counters and other shoe components.
TANNERIES		
UPPER LEATHER TANNERIES	5	Tanning shoe upper leather.
SOLE LEATHER TANNERIES	2	Tanning shoe sole leather.
SUPPLY PLANTS		
UPPER LEATHER SUPPLY PLANT	1	Warehousing, grading and distributing upper leather to shoe factories.
CENTRAL SUPPLY PLANT	1	Distribution center for shoe findings, materials and supplies.
CENTRAL MACHINE SHOP	1	Repairing and building machinery and equipment.
WAREHOUSES		
FINISHED SHOES	10	Warehousing, order filling and shipping of finished shoes.

SALES DIVISIONS and PLANT LOCATIONS

ST. LOUIS

Accent Shoe Co.
Conformal Footwear Co.
Continental Shoemakers
Dorothy Dodd Shoe Co.
Export
Friedman-Shelby
Great Northern Shoe Co.
Hampshire Shoe Co.
Hy-Test
Pennant Shoe Co.
Peters
Queen Quality Shoe Co.
Roberts, Johnson & Rand
Sentinel
Vitality Shoe Co.
Winthrop Shoe Co.

CHICAGO

The Florsheim Shoe Co.

MANCHESTER, N. H.

Sundial Shoe Co.

PRESTON, ONTARIO, CANADA

Savage Shoes, Ltd.

LOCATION OF SHOE FACTORIES AND SUPPLY PLANTS

MISSOURI

Belle
Bland
Cape Girardeau
De Soto
Dexter
Eldon
El Dorado Springs
Fulton
Hamilton
Hannibal
Hermann
Houston
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Poplar Bluff
Richland
St. Clair
St. James
Ste. Genevieve
St. Louis
Salem
Sikeston
Sullivan
Sweet Springs
Vandalia
Washington
West Plains
Windsor

ILLINOIS

Anna
Chester
Chicago
Evansville
Flora
Jerseyville
Mt. Vernon
Olney
Quincy
Springfield
Steelville

ARKANSAS

Batesville
Conway
Malvern
Russellville
Searcy

KENTUCKY

Hopkinsville
Paducah

TEXAS

Bryan

ONTARIO CANADA

Fergus
Galt
Kitchener
Preston

LOCATION OF TANNERIES

South Wood River, Illinois

St. Louis, Missouri

Manchester, New Hampshire

Philadelphia, Pennsylvania

Bolivar, Tennessee

Marlinton, West Virginia

Plant Facilities

Late in the year the Company closed its three remaining New Hampshire shoe factories. These plants located in Claremont, Nashua and Newport, produced men's and boys' shoes and accounted for about 3½% of the Company's total production. The plants, all of which are multi-story, were built about 50 years ago. The Nashua building has been sold and it is expected that the other two buildings will be disposed of in the near future.

Integration of the production from these factories in the midwestern plants will result in improved efficiency and lower costs and will bring together all production and styling under unified central management control.

Associated with this move, the Great Northern and Hampshire Shoe Companies, distributors of men's and boys' shoes, were transferred from Manchester, New Hampshire, to the Company's headquarters in St. Louis. The Sundial Shoe Company, which sells and distributes a complete line of men's, women's and children's shoes in the eastern part of the United States, will continue its headquarters and warehouse in Manchester.

In the 5-year period following World War II the Company built 14 modern, one-story brick shoe factories, most of them containing 40,000 square feet of floor area similar to the Conway, Arkansas, plant shown on this page. These new plants, in some cases, replaced old and less efficient multi-story factories located elsewhere.

The Company's new 70,000 square-foot processing plant for rubber composition soling and heeling material at Bryan, Texas, which was completed in 1954, has steadily expanded its production and at year end was operating at 85% of capacity.

The increased requirements for rubber soles and heels which led to the erection of this plant had an opposite effect on the requirements for leather soles and heels. Operations of the Eldon, Missouri, and Bald Knob, Arkansas, sole cutting plants were consolidated during the year with the production of the plants located at St. James and Vandalia, Missouri. At year end the Eldon plant was in the process of being equipped for the expanded production of a medium-priced line of men's and boys' shoes.

During the year the Company purchased from the United Shoe Machinery Corporation, at a cost of $1.5 million, a number of leased shoemaking machines of various types which were in active use in our plants.

These machines were purchased after a comprehensive study of the cost of buying versus leasing on all of the machines which were on lease from United. For many years these machines were available only on a lease basis. The lessees' option to purchase machines from United resulted from new terms announced to the industry by the United Shoe Machinery Corporation in mid-1955.

For the past several years the number of European-made shoe machines offered for sale in this country has steadily increased. Our Company has investigated many of these machines and has purchased a few of them.

Training Programs

Throughout the year informative programs were held to further instruct and develop our supervisory employees and prospective salesmen.

These educational programs initiated three years ago have been augmented and improved each year and have proved of considerable assistance in broadening the knowledge of these employees to the mutual benefit of the Company, its employees, customers and stockholders.

Last year forty young men completed the training program for prospective salesmen. Eighty-seven sales trainees have now completed classroom studies

One of our fourteen postwar shoe factories located at Conway, Arkansas.

affording them the opportunity to become thoroughly acquainted with the Company, its products, its standards and policies, as a preliminary to practical training on the road in the company of experienced salesmen.

The instructors of the program are made up of seventy Company executives and department managers. This insight into the many various aspects of the shoe business has given these men information that will prove invaluable in their contacts with our customers. Promising careers are

Future salesmen study shoe construction at Hannibal, Missouri, shoe factory.

indicated for many of these young men based on their records to date.

Periodic meetings of the plant supervisory group were conducted during the year by the general superintendents of the manufacturing divisions. In addition to a discussion of manufacturing problems and cost control, union contracts, community relations and such other matters as will better equip these men for their complex tasks were covered in these meetings.

Retail Sales Clinics

Retail sales clinics for store owners and sales personnel from stores operating under the Merchants Service and Shoenterprise plans were continued during the year.

Instead of the larger number of regional meetings previously held, the clinics were expanded last year and three large sectional meetings were held during June, one week apart, in St. Louis, New York and San Francisco.

For the first time some of the best sales and merchandising talent available outside the Company was invited to address the hundreds of retailers who attended. These experts, many of them with national reputations in the field of merchandising, together with our own specialists, combined to present a highly informative discussion of all phases of retail operations including retail selling techniques, display, merchandising, advertising, controls, budgets and sales training.

In St. Louis, where the largest gathering was held, more than 400 retailers and their sales staffs turned out for the clinic. A highlight of the St. Louis meeting, which lasted three days, was an all-day visit to two of our manufacturing plants in nearby communities. For most of our customers this was their first visit to a shoe factory. Our retailers received a wealth of sales information which will prove of considerable value in selling our shoes to their customers.

Our People

During the year 36,500 men and women made up our capable working force.

Employee benefit programs covering group life insurance and disability benefits continued through 1955 without change. At year end employee life insurance coverage in force exceeded $80 million to the cost of which the Company is a large contributor.

Recreational programs organized and maintained by the employees themselves are an important employee activity. Picnics and outings, dances and Christmas parties were held by our employees and their families at many locations during the year. A variety of sports including baseball, softball and basketball and other sports were enjoyed by many employees participating in the programs.

This year four of our plants received recognition for achieving more than seven million man-hours without an accident. Awards were presented by the Liberty Mutual Insurance Company to our two plants in Perryville and plants at Windsor and Jackson, Missouri. These excellent records were

Office employees enjoy remodeled cafeteria

gained through the help of special safety committees which have been established at each manufacturing plant.

Employees at the St. Louis headquarters are now enjoying the enlarged and completely re-equipped cafeteria in the main office building. Breakfast and lunch are served at modest prices. The Company also operates nine other cafeterias for employees at various plant locations.

Our employees' length of service profile, presented graphically on this page, shows that our Company possesses a good balance of youth and experience. Fifty-one percent of the employees have over 5 years of service, 31% have been with the Company over 10 years and 5% have passed the 30-year milestone of service.

Wage Settlement

The parent Company's new wage contract with the United Shoe Workers of America, C. I. O., and the Boot and Shoe Workers Union, A. F. L., covering its principal employee groups, was signed on December 1 and applied retroactively to October 3, 1955. The contract extends over a 2-year period and, if approved by the General Executive Boards of the Unions before October 1, 1956, a third year from October 1, 1957, to September 30, 1958, will be added.

Major provisions of the settlement include:

Effective October 3, 1955, an increase in the present 4% extra (agreed to in 1952) to 9% for hourly rated and piecework employees.

Effective April 1, 1956, the extra payment will be increased from 9% to 12%.

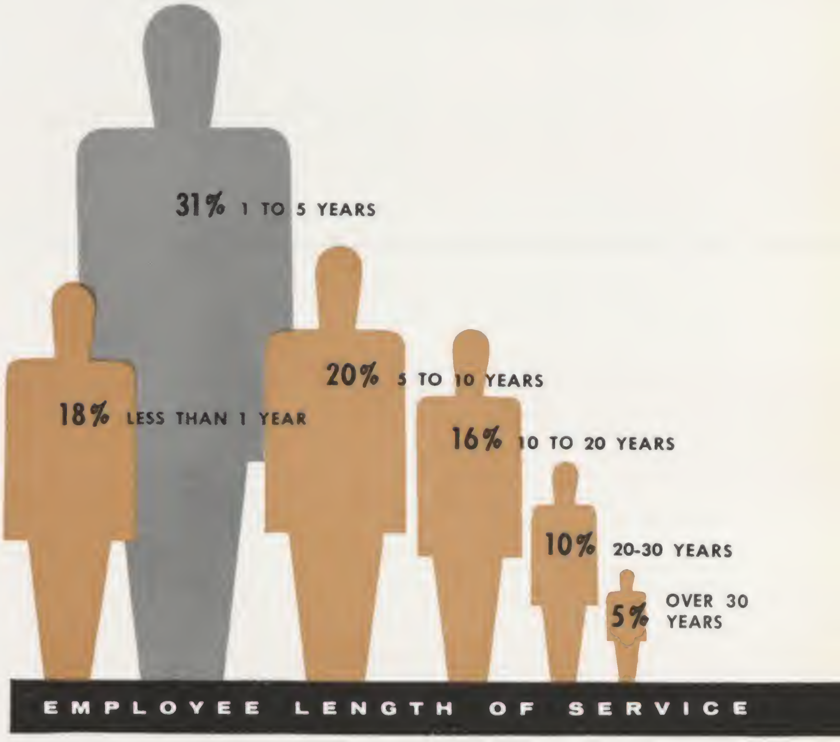
Union shop in states where it is legal.

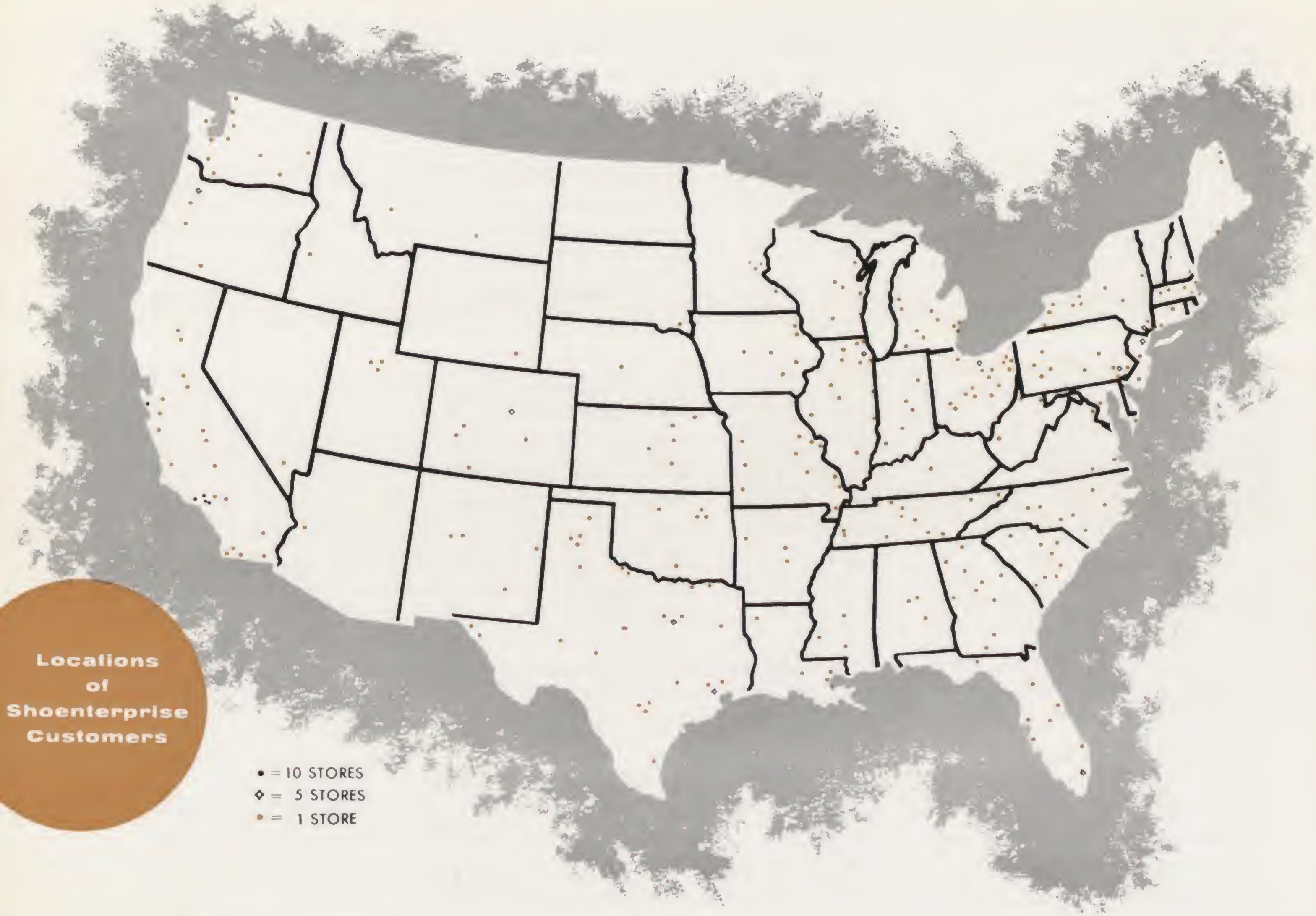
The third year, if approved, provides for a payment of 3% of the gross payroll into a fund to be used for establishing a pension plan.

Our Plant Communities

Our Company continued to sponsor and participate in the activities of the many plant communities in which we operate. Our people took active part in all of their events such as county fairs, exhibits, business-education days, parades and meetings of the many business, professional and civic groups.

Guest speakers were provided by the Company for these occasions, we showed movies on Company operations, arranged for plant tours and in general maintained an active interest in all community projects. All of these events in which the Company took part were noted by radio and television stations plus news and feature stories in the local papers. Information regarding Company developments of interest are regularly sent to community leaders and the local newspapers.





Locations of Shoenterprise Customers

Our Customers

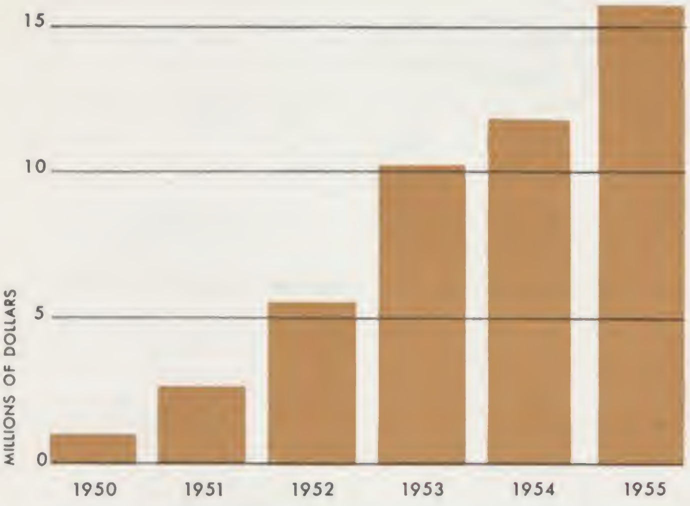
The world's largest shoe manufacturing enterprise attained its position principally through sales to independent retail merchants. Although today we number among our customers many large and medium-size retail shoe chains, and although the Company owns an interest in a few retail outlets, the independent retailer remains the backbone of our business.

To assist independent merchants plan and develop a profitable retail shoe business, our Merchants Service Division was established in 1930. Consultation with Merchants Service fieldmen is available to our dealers at all times at no cost. The assistance offered by this division has helped many merchants to enjoy great success.

Shoenterprise Corporation was organized in 1950 to lend financial aid to men with ambition and shoe retailing experience but with limited capital in setting up independently owned and operated retail stores in localities in which the Company's distribution was inadequate. From the date of organization through the end of our past fiscal year, over 400 stores were opened under the Shoenterprise plan. Shipments to these stores have grown steadily each year, reaching a total of $15,700,000 in 1955.

Shoenterprise loans are made for a period of ten years. Some loans have been paid off from store profits and the proprietors have become completely independent shoe store owners. Other owners have taken profits from the first store to open a second, and sometimes a third store in the short space of five years.

One such instance is that of Mr. William J. Combs and his father who opened their first Shoenterprise store in Salina, Kansas, in the fall of 1950. Early in 1953 their second store was opened in Concordia, Kansas, and the third venture had a successful opening in Great Bend, Kansas, in November 1955.



SHIPMENTS TO SHOENTERPRISE STORES

Mr. Combs, in a talk before the Company's Progress Club, composed of some 500 Company executives, supervisors and department heads, reviewing his experience with Shoenterprise said: "Today, as perhaps never before, it is important for a merchant to be ever conscious of his operation. The Merchants Service Department in providing a simple, yet complete accounting system, stock control plan, budgets, analyses, and audits, have helped us immeasurably in maintaining a profitable and successful operation and have enabled us to take the guesswork out of our operation. Our Merchants Service fieldman has been a great help in many phases of our business and along with the Retail Operations Department as a whole has helped us to enjoy a greater share of success than would otherwise have been possible.

"To me, Shoenterprise Corporation has made the future bright with promise for other young men, just like myself, who may dream that someday they might become an independent merchant, and I know that if a man has the knowledge, the drive, perhaps a little luck, and possesses such characteristics as to enjoy his work despite a few hard knocks, he will succeed with the opportunity provided by Shoenterprise Corporation."

Stockholders

At year end International Shoe Company's 3,359,503 shares of common stock were owned by 13,621 stockholders. This is an increase of 468 stockholders during the past year. 1955 was the 29th consecutive year in which Company ownership has broadened.

Our stockholders reside in every state in the Union and in 11 United States possessions and foreign countries. Average ownership at year end was 250 shares with no one person or organization owning as much as 3%.

It has been our endeavor to furnish our stockholders with a complete and informative annual report on Company operations. It is gratifying that our 1954 report to stockholders was again judged the best report in the shoe and leather industry in the Financial World's Annual Report Survey. Our report has been so judged in five of the past six years.

DETAIL OF STOCK OWNERSHIP NOVEMBER 30, 1955

CLASSIFICATION	Holders	%	Shares	%
Women	5,410	39.7	1,182,948	35.2
Men	4,322	31.7	1,106,280	32.9
Joint Accounts	2,553	18.8	173,637	5.2
Fiduciaries	891	6.5	482,563	14.3
Investment Trusts	27	.2	86,006	2.6
Companies	66	.5	81,413	2.4
Insurance Companies	11	.1	19,500	.6
Churches—Hospitals—Universities—Charities	106	.8	40,024	1.2
Brokers	235	1.7	187,132	5.6
TOTAL	13,621		3,359,503	

SHARES	1-25	26-50	51-100	101-200	Over 200
HOLDERS	5,132	3,011	2,862	958	1,658
	37.7%	22.1%	21.0%	7.0%	12.2%

To reach today's shoe prospect, ADVERTISING *must plant* BRAND CONSCIOUSNESS *in his mind*

Here's how your management is investing its advertising dollars to keep International Shoe Company the leader in its field!

We employ every known successful advertising medium to carry our messages to people at home and on-the-go.

PLUS

Maintaining an intimate and friendly merchandising relationship with all of our current and prospective accounts throughout the year with Trade Paper Advertising, Shoe Clinics and Shoe Shows.

Our planned Advertising and Merchandising Programs help

- To promote and sell these famous Brand Names and
- To uphold the prestige and position of our Company in the Shoe Industry.

Roberts, Johnson & Rand Sales Division

The RAND Shoe · The Trim Tred Shoe · Poll-Parrot Shoes for Boys and Girls · Star Brand Shoes · Rand Juniors · Randcraft

Peters Sales Division

Velvet step Shoes · Peters Wesboro · City Club Shoes for Men · Weather Bird Shoes · Peters Diamond Brand Shoes · City Club Jrs.

Friedman-Shelby Sales Division

Friedman-Shelby · Red Goose Shoes · Kingsway · Grace Walker · The John C. Roberts Shoe · John C Roberts Legion

Specialty Divisions

Accent Shoes · Queen Quality Shoes · Conformal Shoes for Men and Women · Vitality Shoes · Winthrop Jrs. for boys · Dorothy Dodd Shoes · Winthrop Shoes · Hy-Test Safety Shoes

The Florsheim Shoe Company

The Florsheim Shoe · ISCO

Sundial Sales Division

Sundial Shoes for all the family

IN CANADA

Savage Shoes Limited

Savage Shoes

OFFICERS and DIRECTORS of PRINCIPAL SUBSIDIARY CORPORATIONS

THE FLORSHEIM SHOE COMPANY

Chicago, Illinois

DIRECTORS

Simeon F. Eagan
Harold M. Florsheim
Irving S. Florsheim
Gifford P. Foley
Byron A. Gray
Richard A. Heider
J. Lee Johnson
Weldon P. Magee
Martin F. Maher
Robert O. Monnig
Oswald M. Pick
Henry H. Rand
John K. Riedy
Clarence W. Schaaf
Joseph B. Stancliffe
John W. Wallace

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Harold M. Florsheim, *President*
Clarence W. Schaaf, *Vice-President & Secretary*
Joseph B. Stancliffe, *Vice-President*
John W. Wallace, *Treasurer*
Simeon F. Eagan, *Assistant Vice-President*
Oswald M. Pick, *Assistant Vice-President*
Weldon P. Magee, *Assistant Vice-President*
William H. Armstrong, *Assistant Vice-President*
Betty B. Clayburn, *Assistant Secretary*

SAVAGE SHOES LIMITED

Preston, Ontario, Canada

DIRECTORS

C. Reg Kidner
John S. Malcolm
Robert O. Monnig
Henry H. Rand
Laurence M. Savage

OFFICERS

Laurence M. Savage, *President*
C. Reg Kidner, *Vice-President & Sec.-Treas.*

SHOENTERPRISE CORPORATION

Saint Louis, Missouri

DIRECTORS

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Carl E. Brueckmann
Karl E. Forwalder
Edward J. Hopkins
J. Lee Johnson
Winston J. McClure
Robert O. Monnig
Harold F. Oyaas
Henry H. Rand
Richard O. Rumer
Fred J. Vogt
Albert V. Wheeler

OFFICERS

Robert O. Monnig, *President*
Henry H. Rand, *Vice-President*
Winston J. McClure, *Secretary*
Carl E. Brueckmann, *Treasurer*

BURK BROTHERS

Philadelphia, Pennsylvania

DIRECTORS

William J. Banks
Gerard Kevil
Henry H. Rand
Rezin H. Richards
George L. Woelfel

OFFICERS

Henry H. Rand, *Chairman*
Rezin H. Richards, *President*
George L. Woelfel, *Vice-President & Gen. Mgr.*
Warren P. Metz, *Secretary-Treasurer*

TWELFTH-DELMAR REALTY COMPANY

Saint Louis, Missouri

DIRECTORS

Carl E. Brueckmann
J. Lee Johnson
Robert O. Monnig
Henry H. Rand

OFFICERS

Henry H. Rand, *President*
Robert O. Monnig, *Vice-President*
Carl E. Brueckmann, *Secretary-Treasurer*


World's largest manufacturer
of men's, women's and children's shoes